

# SENATE BILL REPORT

## ESHB 1796

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As Reported By Senate Committee On:  
Economic Development, Trade & Management, March 23, 2007

**Title:** An act relating to property tax exemptions for nonprofit organizations for small business incubators which assist in the creation and expansion of innovative small commercial enterprises.

**Brief Description:** Providing a property tax exemption for nonprofit small business incubators.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Conway, Orcutt, Pettigrew, Ericks, Chase, Green, Haler, Dunn, Hankins, Hasegawa, Appleton, Kenney, Santos, VanDeWege, Simpson, Goodman, Morrell and Lantz).

**Brief History:** Passed House: 3/13/07, 77-18.

**Committee Activity:** Economic Development, Trade & Management: 3/20/07, 3/23/07 [DPA].

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

**Majority Report:** Do pass as amended.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Clements, Kauffman and Shin.

**Staff:** Jacob White (786-7448)

**Background:** Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted.

In 2004, the Legislature created a state Small Business Incubator (SBI) program, administered by the Department of Community, Trade and Economic Development (CTED). Under the program, CTED is to provide capital funds and technical support to qualifying SBIs to the extent that funds are appropriated by the Legislature.

An SBI is defined as a physical location that offers space for start-up and expanding firms with viable products; the shared use of equipment and work areas; daily management support services essential to high-quality commercial operations; and technical assistance.

Qualifying SBIs are 501(c)(3) nonprofit organizations that focus on developing small businesses in an economically distressed or disadvantaged area.

**Summary of Engrossed Substitute Bill:** Provides a state property tax exemption for real and personal property used by a qualified nonprofit organization located in a rural county, a county

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with a community empowerment zone (CEZ), or in a CEZ so long as the property is used to assist startup and expanding businesses.

The tax exemption will be applied to taxes levied for collection beginning in 2008. The exemption expires in 2015. In 2010, any nonprofit organization claiming this exemption must report to the Department of Revenue (DOR) the number of businesses served by the nonprofit organization and the types of services provided. Failure to submit the report will render a nonprofit organization ineligible for the exemption.

**EFFECT OF CHANGES MADE BY RECOMMENDED AMENDMENT(S) AS PASSED COMMITTEE (Economic Development, Trade & Management):** Requires those organizations receiving this tax exemption to apply for the Washington State Quality Award (WSQA) within two years after first receiving the tax exemption; and, for the organization to reapply for the WSQA every three years. Property that falls under this tax exemption must be both owned and used by a nonprofit organization, instead of owned or used.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Many non-profits currently receive similar property exemptions. The bill takes into consideration the DOR's concerns about for-profit businesses gaining a competitive advantage through this bill. By having CTED certify the organizations under this bill, it solves the concerns raised by the DOR by preventing unintended companies, such as business parks, from taking advantage of the exemption. Also, the DOR has the ability to revoke an organization's exemption. This bill is not controversial, nor is it a new issue. Throughout the country, many small business incubators enjoy these types of tax exemptions. Also, this bill has been in the Senate for a few years now, so it is not a new issue. Small business incubators are an integral part of economic development because they take economic development out of the hands of the government and allow private companies to help spur economic growth.

CON: Historically, for-profit businesses do not get these property tax exemptions. DOR does not believe that this bill should go forward until the results of the JLARC study on the viability of incubators comes out later this year.

**Persons Testifying:** PRO: Lincoln Ferris, Washington Association of Small Business Incubators; Tim Strege, Small Business Incubator.

CON: Brad Flaherty, DOR.